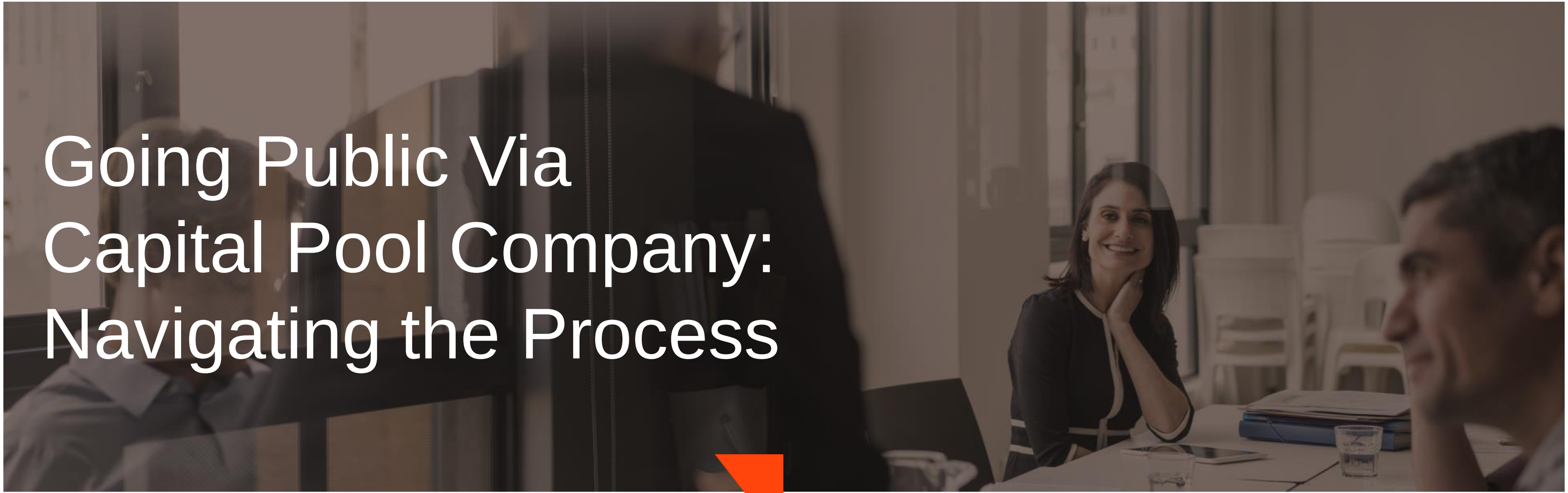

Going Public Via Capital Pool Company: Navigating the Process

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Traditional Initial Public Offering (IPO) Process

- File a preliminary prospectus with the Canadian securities regulators and concurrently apply for a stock exchange listing
  - extensive review and comment with the Canadian securities regulators
  - concurrent review by stock exchange
- During the comment period, market the capital raising transaction
- File a final prospectus once comments are resolved and marketing is complete
- Close the capital raising transaction and listing of the shares on the stock exchange

Going Public via CPC Qualifying Transaction – The Basics

- What is a Capital Pool Company (CPC)?
  - “Blind Pool” in which investors invest in a company with no business
  - Two assets – cash and stock exchange listing
  - No historical operations or latent liabilities
  - Innovative - fosters capital formation for junior companies
- Going public via a CPC qualifying transaction
  - Essentially an M&A transaction – implemented via reverse take-over (RTO) of a CPC by a private company
  - CPC acquires the private company or its business
  - Shareholders of the private company end up holding the vast majority of equity in the combined entity (the Resulting Issuer)

Qualifying Transaction Agreement

- Identify a suitable CPC
  - Key considerations - jurisdiction of formation, target industries, available cash (January 1, 2021 amendments allow CPCs to raise up to $10M)
- Negotiate the “price” – i.e., how much equity of the Resulting Issuer will remain with the CPC shareholders and how much will end up with the former private company shareholders
- CPC can provide maximum $25k non-refundable deposit; up to $250k secured loan
- Enter into a letter of intent/Qualifying Transaction Agreement
  - Sets out the consideration or how it will be determined
- Notify the TSXV and issue a comprehensive press release
  - CPC trading halt

Definitive Qualifying Transaction Documentation

- Negotiate a definitive transaction agreement and transaction structure
    - Could be implemented as a share exchange, an amalgamation, a plan of Arrangement or an asset purchase
    - Impacts whether CPC shares issued will be freely tradable
- Minority approval considerations for a non-arm's length transaction
- Initial submissions to the TSXV to be filed within 75 days of comprehensive news release
    - Sponsor report from a TSXV "member" firm unless exempt
    - Geological report/title opinions for mining companies
    - Corporate opinion
    - Personal Information Forms (PIFs)
- Obtain TSXV conditional approval

Implementing the Qualifying Transaction

- CPC typically calls and holds a shareholders meeting
  - Approve name change – reflect the business being acquired
  - Board composition for the Resulting Issuer
  - Share split/consolidation
- Preparation of TSXV Filing Statement for Canadian and US companies
  - Prospectus-like document
  - Financial statement requirements – audit requirements
  - Detailed disclosure about the Resulting Issuer

Concurrent Financing

- A concurrent financing typically is implemented
- Provides the Resulting Issuer with additional working capital and is used to satisfy TSXV listing conditions
- Usually implemented at the private company level
  - Securities of private company exchanged for CPC shares at closing
  - Facilitates free tradability under Canadian securities laws
- Funds typically held in escrow
  - Released concurrent with the completion of the Qualifying Transaction
  - Time constraints to complete the Qualifying Transaction or funds returned

Matters to Consider in Qualifying Transactions

- Resulting issuer must satisfy TSX Venture Exchange minimum listing requirements
  - Certain Tier 2 requirements - $750,000 of Net Tangible Assets or $500,000 in revenue or $2M in financing; 12 months working capital and $100,000 in unallocated funds
  - Certain Tier 1 requirements - $5M of Net Tangible Assets or $5M revenue; 18 months working capital and $200,000 in unallocated funds
  - TSXV could refuse to approve the Qualifying Transaction
- Financial statement requirements
  - Lead-time for audited private company financial statements – be aware of 'stale' dating – future public company accounting standards
  - Audited financial statements for private company, as well as pro forma financial statements for the Resulting Issuer are typically required
  - Three years audited statements, but could be two years
  - Predecessor businesses and company acquisitions prior to the Qualifying Transaction
  - TSXV will not waive financial statement requirements – only Canadian securities regulators

Matters to Consider in Qualifying Transactions (cont'd)

- Consider corporate governance and social issues in planning the Qualifying Transaction – e.g., who will be the directors of the Resulting Issuer
  - Directors and officers of the resulting company will have to satisfy securities law rules and stock exchange requirements
  - Financial expertise for Audit Committee members
  - Satisfy independence requirements
- US/Other Non-Canadian jurisdiction structuring
  - Tax considerations are highly important in determining the optimal structure
  - Foreign securities law considerations – e.g., multiple share class structure to deal with remaining a US foreign private issuer
- Directors/officers must be satisfactory to the TSXV
  - PIFs requiring more time to clear due to COVID
- Escrow of securities – 25% released at closing and every 6 months
  - Includes securities held by principals (directors, officers and holders of 10% (if can appoint to the board) or 20% of the shares) of the Resulting Issuer

Advantages of Going Public via Qualifying Transaction

- Many costs of the transaction are borne by the CPC (unlike IPO where costs are borne by the issuer)
- Ability for CPC to advance certain funds to the private company
- Much of the time in effecting a qualifying transaction is time dedicated by management of the CPC and not management of the target company
- Dealing with the TSXV – generally eliminates extra regulatory burden of having to engage with the Canadian provincial securities regulators
- Timeline from start to completion is usually shorter than a traditional IPO
- Long-established and broadly accepted means of going public in Canada and facilitating equity for junior and mid-tier issuers

Disclaimer

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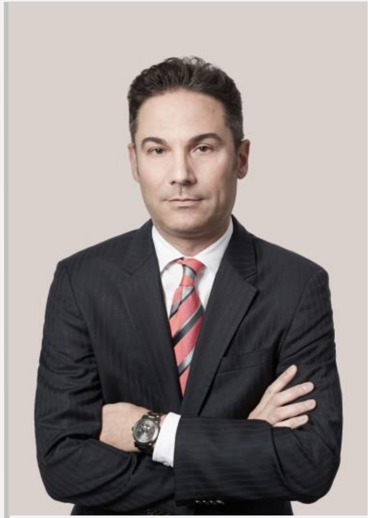

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